36798 SERVICE DATE – MARCH 28, 2006
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SURFACE TRANSPORTATION BOARD

DECISION

STB Docket No. 42071

OTTER TAIL POWER COMPANY
v.
BNSF RAILWAY COMPANY

Decided: March 24, 2006

In this proceeding, Otter Tail Power Company (Otter Tail) challenged the reasonableness of the rates charged by BNSF Railway Company (BNSF) for movements of coal from origins in the Powder River Basin (PRB) of Wyoming to the Big Stone Generating Station located near Milbank, SD. In a decision served on January 27, 2006 (January '06 Decision), the Board found that Otter Tail's stand-alone cost (SAC) presentation relied on an improper cross-subsidy and thereby failed to show that Otter Tail was cross-subsidizing parts of BNSF's expansive rail network from which it derived no benefit or was otherwise paying for inefficient service. The Board therefore dismissed Otter Tail's complaint.

On February 16, 2006, the parties filed a joint petition to correct technical and computational errors in the January '06 Decision. Otter Tail has identified several technical and computational errors, which BNSF has confirmed and authorized Otter Tail to submit on behalf of both parties. This comports with the procedures set forth in Public Serv. Co. of Colo. d/b/a Xcel Energy v. Burlington N. & S.F. Ry., STB Docket No. 42057, slip op. at 2 (STB served Dec. 13, 2004) for addressing technical errors. The Board's analysis of the various technical and computational errors is discussed below. These corrections do not materially impact our analysis in the January '06 Decision or the outcome of this case.

DISCUSSION

T&E Employees for Non-Coal Trains

In the January '06 Decision, operating statistics were annualized for both coal trains and non-coal trains based on round trips, following the approach used by BNSF, which Otter Tail failed to challenge as flawed in the original proceeding. This methodology accumulates all statistics by round trip and then multiplies them by the number of loaded trains. It is appropriate for coal trains, because those trains consistently move only loaded cars in one direction and only empty cars in the reverse direction, although crews must be reflected for the round-trip journey. Otter Tail now objects to the way BNSF estimated crews for non-coal trains, and BNSF

concedes it erred. Because non-coal trains contain both loaded and empty cars in each direction, their statistics must be accumulated based on a one-way journey. Thus, our use of BNSF's evidence in the January '06 Decision overstated the train and engine (T&E) personnel counts, and attendant costs, for general freight trains. We will make the necessary corrections by calculating non-coal train statistics based on a one-way journey and multiplying by the total number of general freight trains.

Trainee Travel

The January '06 Decision contained an error in travel expenses for T&E trainees. We assumed that the length of the classroom portion of T&E training was a full 18 weeks, but the parties agree that it is only 6 weeks long. Generally, the last 12 weeks of T&E training are on-the-job training where the trainees are working out of their home terminals and do not incur reimbursable travel expenses. Accordingly, the trainee travel expense is adjusted here.

Fine Grading

The parties agree that we overstated the investment needed for fine grading because Otter Tail's unit cost was not used. The fine grading investment amount is adjusted here to use Otter Tail's unit cost of $0.33 per square yard.

Lateral Drainage

In the January '06 Decision, we incorrectly assumed that the parties had agreed on the quantity of pipe needed for lateral drainage and used the amount supplied by BNSF. As the parties point out, the parties' pipe quantities were different (differing by approximately 6%). Because we accepted Otter Tail's facility plan, we should have used Otter Tail's pipe quantity. (The parties agree that BNSF's unit costs were properly used.) Accordingly, lateral drainage is corrected here by using Otter Tail's pipe quantity multiplied by BNSF's unit costs.

Bridges

We made two calculation errors in bridge investment costs in the January '06 Decision. First, the track feet associated with the Valley City bridge at milepost 64.4 were double counted. Second, 6 deck drains per span for Type II bridges were added to the 12 per span already included. The Valley City bridge track double count and additional deck drains are removed here.

Donkey Creek Fueling Facility

In the January '06 Decision, we accepted Otter Tail's two fueling platforms for the Donkey Creek fueling facility, but, as the parties point out, we inadvertently used BNSF's investment amount in its calculations, which was for three fueling platforms. The investment amount is corrected here.

Engineering, Mobilization and Contingency Costs

The errors discussed above have a corresponding effect on engineering, mobilization and contingency costs. Therefore, these costs are adjusted here.

RESULTS OF CORRECTED ANALYSIS

The SAC analysis is adjusted for the technical and computational corrections submitted by the parties. The corrections are shown below for both the entire stand-alone railroad, designated the Otter Tail Railroad (OTRR), and the east-west portion (Western Part) of the OTRR over which the issue traffic moves.

Table 1 below shows the initial operating cost findings attributed to the OTRR and the Western Part used in the January '06 Decision, and the corrected operating costs used here.

Table 1
Operating Expenses Attributed to the OTRR and Western Part
($ millions)

	OTRR Initial	OTRR Corrected	Western Part Initial	Western Part Corrected
Train & Engine Personnel	$51.3	$46.0	$42.0	$36.7
Locomotive Ownership	22.6	22.6	15.6	15.6
Locomotive Maintenance	19.2	19.2	14.4	14.4
Locomotive Operations	58.9	58.9	51.2	51.2
Railcar	13.1	13.1	11.8	11.8
Materials & Supply Operating	0.9	0.9	0.9	0.9
Ad Valorem Tax	5.7	5.7	4.2	4.2
Operating Managers	11.7	11.7	10.5	10.5
General & Administrative	13.3	13.3	11.6	11.6
Training & Recruitment	26.3	21.7	20.4	16.3
Loss & Damage	0.2	0.2	0.2	0.2
Maintenance-of-Way	48.8	48.8	42.5	42.5
Insurance	13.5	13.0	11.2	10.7
Trackage Rights Fees	0.1	0.1	0.1	0.1
TOTAL	$285.6	$275.2	$236.6	$226.6

Table 2 below shows the initial road property investment findings for the OTRR used in the January '06 Decision, and the corrected road property investment.

Table 2
Construction Costs Entire System
($ millions)

	Initial	Corrected
Land	$42.03	$42.03
Roadbed Prep	674.07	660.14
Track	860.66	860.66
Tunnels	0.00	0.00
Bridges	160.74	149.80
Signals & Comm.	203.75	203.75
Building & Fac.	53.86	51.34
Public Improvement	39.02	39.02
Mobilization	48.10	47.14
Engineering	210.12	207.38
Contingencies	225.03	221.92
TOTAL	**$2,517.38**	**$2,483.18**

Table 3 below shows the initial road property investment findings attributed to the Western Part used in the January '06 Decision, and the corrected road property investment used here.

Table 3
Construction Costs Western Part
($ millions)

	Initial	Corrected
Land	$41.54	$41.54
Roadbed Prep	577.10	577.02
Track	729.13	729.13
Tunnels	0.00	0.00
Bridges	149.81	139.08
Signals & Comm.	185.37	185.37
Building & Fac.	23.12	23.12
Public Improvement	29.28	29.27
Mobilization	41.47	41.09
Engineering	180.63	179.54
Contingencies	192.82	191.59
TOTAL	**$2,150.27**	**$2,136.75**

The results of the corrected discounted cash flow calculations are shown for the Western Part in **Table 4** below. Based on the corrected calculations, the expected revenues from the traffic using the Western Part would be less than the stand-alone costs attributable to that traffic for each year from 2002-2021, and cumulatively for the entire 20-year SAC analysis period. The present value of the stand-alone costs attributable to providing service over the Western Part would exceed the revenue from traffic using those facilities by $608 million.

Table 4
Western Part DCF Analysis

Year	Attributable Costs	Forecast Revenues	Difference	Present Value	Cumulative Difference
2002	$443,044,081	$406,470,450	($36,573,631)	($36,111,933)	($36,111,933)
2003	438,764,558	399,426,444	(39,338,114)	(35,126,479)	(71,238,412)
2004	471,319,669	432,309,780	(39,009,889)	(30,380,742)	(101,619,154)
2005	506,805,483	467,352,489	(39,452,994)	(27,873,697)	(129,492,851)
2006	521,318,207	475,870,042	(45,448,165)	(29,075,075)	(158,567,926)
2007	537,017,637	487,537,462	(49,480,175)	(28,663,262)	(187,231,188)
2008	548,434,255	487,529,323	(60,904,932)	(31,947,490)	(219,178,678)
2009	559,864,170	485,233,069	(74,631,101)	(35,448,186)	(254,626,864)
2010	575,900,399	496,126,087	(79,774,312)	(34,310,506)	(288,937,370)
2011	591,403,457	505,196,500	(86,206,957)	(33,573,472)	(322,510,842)
2012	606,830,091	514,068,950	(92,761,141)	(32,712,212)	(355,223,054)
2013	622,859,927	523,012,861	(99,847,066)	(31,883,723)	(387,106,777)
2014	639,336,030	531,849,406	(107,486,624)	(31,079,787)	(418,186,564)
2015	656,315,102	541,144,177	(115,170,925)	(30,154,793)	(448,341,357)
2016	673,605,698	549,921,768	(123,683,930)	(29,323,558)	(477,664,914)
2017	691,422,781	559,067,384	(132,355,397)	(28,414,167)	(506,079,081)
2018	709,943,490	569,016,907	(140,926,583)	(27,395,301)	(533,474,383)
2019	729,250,472	580,430,658	(148,819,814)	(26,195,929)	(559,670,312)
2020	748,565,991	591,613,698	(156,952,293)	(25,016,734)	(584,687,046)
2021	768,662,383	604,145,211	(164,517,172)	(23,744,557)	(608,431,602)

As the adjusted analysis demonstrates, Otter Tail's SAC presentation continues to rely on an improper cross-subsidization of the traffic on the Western Part, which includes Otter Tail's own traffic. The adjustments do not alter our conclusion that Otter Tail has failed to demonstrate that it is paying more than would be necessary for efficient service or is cross-subsidizing other parts of the BNSF network.

This action will not significantly affect either the quality of the human environment or the conservation of energy resources.

It is ordered:

1. The January ’06 Decision is modified as set forth above.

2. This decision is effective on March 28, 2006.

By the Board, Chairman Buttrey and Vice Chairman Mulvey.

Vernon A. Williams
Secretary